OREGON BUSINESS REVIEW

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OREGON BUSINESS - NOVEMBER

	Compared with October 1943	Compared with November 1942
Bank Debits	— 1.6	+24.7
Retail Sales	— 1.9	+ 9.3
Building Permits	—29.5	+68.8
Lumber Production (weekly average) 1/	+ 2.2	+ 5.0
Ordinary Life Insurance Sales	— 4.8	+37.0
No Business Failures for November 1943	Two Failures ($36,000)	Five Failures ($39,000)

1/ Western Oregon and Western Washington

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WEST THREATENED BY POLITICAL RATE MAKING

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Producers and shippers of the western United States should take note of a strong movement in Congress, backed by certain southern interests, to enact legislation designed to increase the uniformity of railroad freight rates throughout the United States by establishing a mileage basis for charges, and by changing the rules of freight classification. Altogether some fourteen Senate and House resolutions have been referred to committees of Congress and are at present listed as "pending." Certain of the bills would divide the United States into zones within which rates would be uniform as to distance. Others provide uniformity on a

national basis. Some of the bills call for uniform classification for the whole United States in lieu of the three-district system now in force. Some of the bills apply to class rates, others to both class and commodity rates.

In outward appearance railroad rates are not now uniform. As to classification of freight, there are three major districts of "territories" for classifying freight, each with its own rules for classification. The territory east of the Mississippi and north of the Ohio, known as the Official Classification Territory, recognizes eight classifications, class 8 being 27.5 per cent of first class. The so-called Southern Classification Territory, lying east of the Mississippi River and south of the Ohio, recognizes twelve classifications. The rate on class 12 is 17.5 per cent of the rate on class 1. The Western Classification Territory, which includes all the territory west of the Mississippi River and the Great Lakes, recognizes ten classes, class E being 17.5 per cent of first-class rates.

Not only is there a difference in the general plan of classification as between districts, but there have been differences in the treatment of specific commodities as between districts. For example, beehives, in packages, carload minimum 30,000 pounds, have been listed in class 5 in Official Territory. This is 35 per cent of the first-class rate. In Southern Territory they have been listed as class 6, with a rate 40 per cent of first class. In Western Territory they have been placed in class C (which corresponds to class 8) with a rate 30 per cent of first class. Differences are explained by the general conditions under which this freight moves in the several districts.

There has long been agitation for a single uniform classification for the entire United States. Many years ago the Interstate Commerce Commission was given much authority to work out a uniform classification plan and to require its adoption. To date the commission has not insisted on such uniformity, for the reason that there are still good reasons why freight should be classified differently in the three districts. To require uniformity would do violence to long-established business relationships in many sections of the United States. Certain communities would be completely excluded from long-established markets for certain commodities. Others would find a windfall of advantage from the new arrangement which would exclude their former competitors.

However, the greatest inequalities lie within the several classifications themselves. It is hard for the uninitiated to see that, if $1.00 per hundred is a fair charge for first class, 85 per cent of that rate is fair for second class, 70 per cent for third class, and so on, until the lowest classification is reached, which in two districts is barely more than one-sixth of first class. As a matter of fact, water and highway carriers use fewer classifications than railroads, and there is some talk that railroad classes should be reduced in number. There are potent economic reasons why differences in charges between commodities should exist, and no pressure group is daring enough to propose a radical modification of it.

Most recent emphasis has been placed on lack of uniformity in rates on the basis of distance. Sugar from San Francisco or Denver may be carried to Middle West points at a much lower rate per ton-mile than sugar from Louisiana or Atlantic points. In fact, it may go at a much lower ton-mile rate from San Francisco than from Denver. Crude petroleum and petroleum products may go into North Dakota at much lower rates per ton-mile from Oklahoma and Texas than from Wyoming. Lumber from the Pacific Coast may reach the Middle West at lower rates per ton-mile than lumber from competing areas. Lumber from Oregon may have a lower ton-mile rate than lumber from Idaho or Montana. Numberless cases of this nature might be cited.

A proposal to require uniformity on a mileage basis should be alarming to all western interests. This proposal is far more important than the proposal to make classifications more nearly uniform, because of the extreme distances which must be covered by goods which are exported from and shipped into this area. Oranges, apples, and garden vegetables now raised on the Pacific Coast might through uniform rates be excluded from many of the nation's markets. Oregon, Washington, and Montana wheat might not be able to reach eastern consumers served by railroads. It might be equally disastrous to cattle and sheep raisers of the West. Coast lumber might suffer disastrous results. If freight charges can be added to selling prices, consumers might be exploited by politically increased rates.

The political attack on the existing rate structure rests on its alleged inequities. Obviously it has many inconsistencies. It is not so evident upon investigation that the discrepancies and inconsistencies indicate undue or uneconomic discrimination.

Politically made rates are themselves apt to be grossly discriminatory because they are the product of compromise, expediency, and pressures. Sound business or economics may not dominate such decisions. Shippers who do not have an economic basis for favorable rates may resort to political action to force rates based on distance, which, for the time being, may act as a subsidy for them. It is alleged that the area served by the TVA in the South is especially active in this movement.

In the long run, inflexibility will be a major defect in politically made rates even for the areas immediately benefited by them. A great danger lies in the establishment of the principle that rates should be made by logrolling and balance-of-power processes. The West and the South may come off badly in the matter, since they are definitely outrepresented in Congress by the densely populated East.

Some political support for the demand for uniformity of rates, which would give some advantage to certain southern communities at the present time, is derived from what is alleged to be an apparent planlessness in the rate structure. On the surface there is neither rhyme nor reason in the existing classifications or rate structures. Not only are class rates inconsistent as between commodities, as indicated above, but there are inconsistencies in the 75 per cent of all traffic which moves on special rates made for particular commodities, often to particular destinations. Some of the commodity rates are below the lowest classification, which, it will be remembered, is carried for about one-sixth of first-class rates. Some may lie between class rates. Such seeming planlessness in commodity rates, together with inconsistencies in class rates, appear to uphold the charge that rates are chaotic and to lend support to attempts to pass legislation apparently designed to bring order out of chaos.

The proposal to legislate uniform mileage rates implies that rates would then follow some known rule or principle affecting costs. As a matter of fact, no rule or principle for allocating joint costs exists. It is true that the Interstate Commerce Commission has asserted that it can determine accurately the cost of transportation in a given case. What it really means is that, if one makes certain assumptions about costs and lays down rules for distributing joint costs, it would be possible to determine costs in a given case. In plain English, such a method is purely arbitrary.

As a matter of fact, there is more than one type of uniformity. Rates based on a mathematical average of costs of transportation on the basis of distance

would be one type. The present rate structure may be listed as another type, if it can be shown that it rests on recognized principle, in spite of the failure to conform to mathematical averages.

There are two major principles involved in railroad rate making. The first is that rates should make traffic move in the greatest possible volume in conformity with sound business. The second is that rates should provide sufficient income to insure adequate maintenance of railroad services. Obviously shippers, carriers, and the general public are interested in and directly affected by both.

To make traffic move, a charge for first-class freight almost six times the charge for tenth-class is necessary. Because certain commodities cannot move even on these rates special commodity rates are published which move approximately three-fourths of all traffic. Railroad managers, the Interstate Commerce Commission, and thorough students of railroad economics conclude that this system has made it possible to develop the greatest volume of traffic, the fullest utilization of the railroad investment, and the lowest possible level of rates. The average charge for transportation is now less than ten mills for carrying one ton of freight one mile. For the consumer the system has opened markets for every transportable product, domestic and imported, at prices, including freight, which have given him the highest standard of living in the world. For businessmen it has opened opportunities for developing new areas and new industries which have made prosperity for him and for the areas affected.

Lumber in the Pacific Coast states, oranges in California and Arizona, fruit and cereals in western states are all industries which developed as a result of this seemingly chaotic rate system. These industries are the basis of demand in the West for hundreds of thousands of automobiles, radios, refrigerators, tractors, and farm implements, as well as for vast quantities of clothing, food, and household equipment produced in the eastern United States. The broad development of the United States and the happiness and welfare of over 130,000,000 people in large measure rest on this seemingly chaotic rate structure, which for the most of the past one hundred years has been subjected to bitter, superficial criticism from those who do not take the trouble to find out how the system works and from those who choose to ignore the facts in order to secure special advantages for their groups.

In deciding whether a commodity should be placed in class 1, with rates five or six times as high as class 10 or in class D1 with rates eleven or twelve times as high, a few definite questions must be answered. The first is, "Is the rate higher than the specific costs incurred by the movement of this particular traffic?" Obviously it would not pay to handle freight at rates below actual out-of-pocket costs. The railroad will be ahead by whatever amount the rates exceed this cost. But in order for the rate to pay the railroad, there is no necessity that the rate conform to any standard of uniformity.

A second question must be answered before it can be decided at what point the rate should be fixed: "Is the rate as high as can be charged without eliminating the traffic?" If the mathematical average rate for similar traffic is 40 cents per hundred, and the out-of-pocket or specific costs 10 cents per hundred, the rate charged could not be less than 10 cents without placing a burden on other traffic to make up losses incurred on this traffic. It need not be 40 cents, since any rate between 10 cents and 40 cents will increase the net income of the railroad and lift the burden of transportation from other traffic. The point is that the rate should be as high as it can be, up to 40 cents. If traffic will move in paying

quantities at 20 cents per hundred, and none could move at 21 cents, the rate should be 20 cents. The lack of uniformity should not worry anyone, since the railroad and all its patrons benefit from the 20 cent rate. Quite as obviously the rate should not be 15 cents in this case, since the traffic would not be bearing as large a portion of the costs of the system as it could. If the railroad puts this rate at 20 cents, the highest rate it can make low-grade traffic bear, and applies similar procedures to other traffic, placing the rate in some instances at 11 cents, in others 30 cents, and in some 40 cents, the rates <u>are</u> uniform, because they conform to a rule or principle.

A third question must be answered concerning high-class freight which could be made to bear extortionate rates: "Is the rate higher than the reasonable cost of the service, in the light of the methods of allocation of joint costs as here outlined?" This year the traffic of the railroads will probably far exceed six hundred billion ton-miles. A very small portion of the traffic could be subjected to extortionate rates. The bulk of it would be driven from the rails, at least it would be in peacetime, by going above the rates traffic will bear.

Still another question must be answered concerning the operations of the railroads as a whole: "Do rates fixed on the basis of what the service is worth to the shipper, and rates on higher-class traffic fixed on the basis of reasonable cost, bring the railroad sufficient revenue to provide adequate railroad facilities?" This question is as important as the other three.

All of those questions have dominated the rate making processes of railroads in the past. Though there have been abuses of the system and cases in which railroad management have made mistakes, on the whole the great development of the railroad industry and the exploitation of the national resources of the United States have been achieved in accordance with this general plan. And, insofar as the plan has been followed, the present rate structure is uniform in spite of what its political critics may assert.

No considerable group proposes political action to make rates of water and highway carriers uniform as to distance. There is reason to feel that political pressure groups are undertaking a bull-in-the-china-shop program for railroad rates, which will wreck a successfully working rate system, to secure for themselves local advantages which they cannot secure under regular procedures, mainly for the reason that what they ask is not in line with established practice and general interest. There is no record that any legitimate rate proposal has failed to receive favorable attention by both railroad management and public regulatory agencies.

Producer, shipper, carrier, and consumer interests in the West should be on the alert to guard against the proposal to make political rates. Such rates will tend to be the product of compromise, expediency, and pressures. Inflexible rates based on distance may be made to serve as a subsidy for the time being for favored areas, but in the long run the injection of politics into rate making will injure both the South and the West, since political supremacy lies in the more densely populated areas of the East. Political logrolling and pork-barrel methods give such areas distinct advantages. Existing methods of rate making have been freely utilized under all circumstances. They have been as freely used in the sparsely settled West and the agricultural South as in the densely populated industrial East. The establishment of rate making by political pressures would ring the death knell of development for areas which rely on rate making based on the two principles heretofore recognized--rates to make the traffic move freely, and rates to make adequate railroad service possible.

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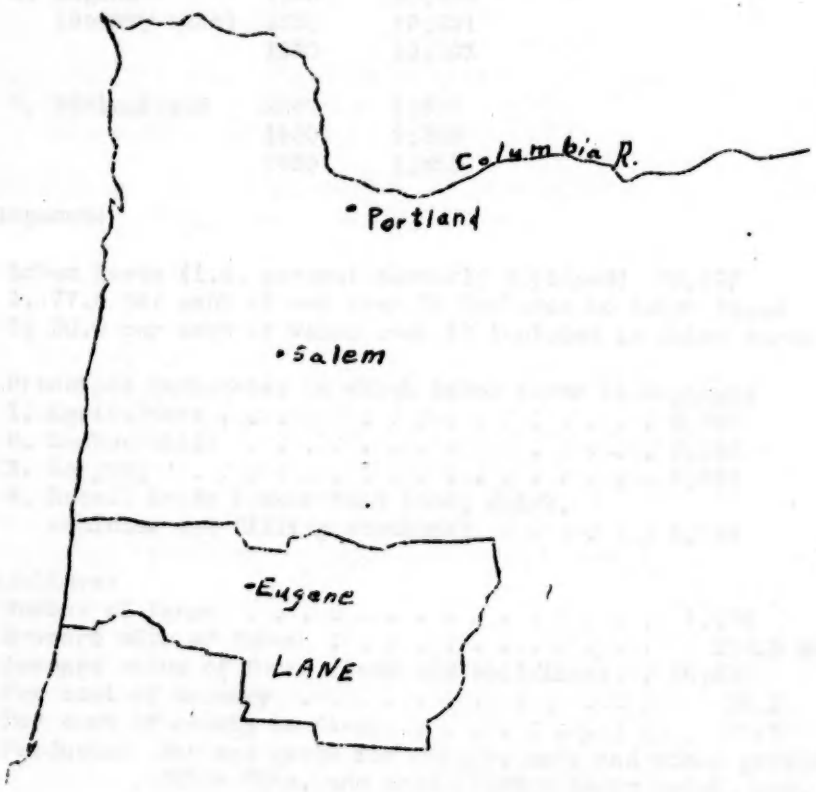
COUNTY BUSINESS ACTIVITY SERIES

Lane County



Lane County

1. Area: 2,294 square miles (1,468,160 acres)

2. Population:

A. Number:

1943	71,434 (Ration Book IV, Nov. 15, 1943)
1940	69,096
1930	54,493
1920	36,166

B. Characteristics:

1. Per cent native born white	95.6
2. Per cent between 15 and 65 (potential labor reservoir)	68.6
3. Per cent living in rural areas	26.5
4. Median school years completed by persons 25 years of age or older:	
a. Males	8.9
b. Females	10.3

C. Cities and towns 2,500 population or over:

1. Cottage Grove	1940	2,626
	1930	2,473
	1920	1,919
2. Eugene (county seat)	1940	20,838
	1930	18,901
	1920	10,593
3. Springfield	1940	2,805
	1930	2,363
	1920	1,855

3. Employment:

A. Labor force (i.e. persons normally employed) 26,882
1. 77.6 per cent of men over 14 included in labor force
2. 20.0 per cent of women over 14 included in labor force

B. Principal industries in which labor force is employed

1. Agriculture	3,725
2. Lumber mills	3,146
3. Logging	1,977
4. Retail trade (other than food, drink, vehicles and filling stations)	1,582

4. Agriculture:

A. Number of farms	4,454
B. Average size of farms	114.3 acres
C. Average value of farms (land and buildings)	$6,337
D. Per cent of tenancy	16.2
E. Per cent of county in farms	17.3

F. Products: Hay and grain for forage, oats and other grains, fiber flax, and seed--particularly vetch, pea, and grass seed. The harvesting of fruit and nut crops, dairying, and the raising of poultry are of major significance. Nearly 4 million dozen eggs were produced in Lane County in 1939, placing it first in Oregon.

5. Housing:

A. Number of dwelling units in county 22,195 (average of 3.30 persons per occupied dwelling)
1. Cottage Grove 880 (average of 3.11 persons per occupied dwelling)
2. Eugene 6,948 (average of 3.12 persons per occupied dwelling)
3. Springfield 1,100 (average of 3.55 persons per occupied dwelling)

B. Percentage of dwellings in county occupied by owners 53.6
1. Cottage Grove 53.0
2. Eugene 43.4
3. Springfield 65.4

6. Manufacturing:

   A. Number of establishments 169
   B. Total value of products $15,901,792
   C. Value added by manufacture (value of products less cost of materials, supplies, etc.) $9,106,595

7. Trade:

   A. Retail: 942 establishments in county with 1939 sales of $25,514,000
      1. Cottage Grove 71 with sales of $1,777,000
      2. Eugene, 450 with sales of $18,122,000

   B. Wholesale: 61 establishments of 1939 sales of $9,872,000
      1. Eugene 43 with sales of $8,139,000

8. Natural Resources:

   A. Mineral:
   A clay deposit reported to be one of the principal nonmetallic resources of the state is found south of Cottage Grove, 22 miles from Eugene. An estimated 10 million tons of high-grade, nonplastic, white-firing, semi-flint fire clay are in this deposit. A mercury mine is located south of Cottage Grove. Occurrences of complex ores of gold, silver, copper, lead, zinc, and variable amounts of iron pyrite are found in the Cascade Mountains in the south and eastern parts of the county. In addition to mercury, gold has been the principal metal produced in recent years.

   B. Timber:
   Forest lands comprised 86 per cent of the area of Lane County in 1933, the most recent year for which U. S. Forest Service data are available. Saw timber covered 1,623,000 and young growth 596,000 acres of forest lands. Douglas fir accounted for 50 of the 60 billion board feet of saw timber in the county in 1933, hemlock and redcedar constituting most of the balance. One-third of the timber was privately owned and the remainder, chiefly in Federal ownership, was also available for cutting. Lane County has the largest share of the saw timber of the 6 counties in the Willamette River Forest District, which now contains one-fifth of the total saw timber volume of Oregon and Washington. Forest products are utilized by 78 sawmills and 2 recently established plywood mills in the county.

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MARKET PROSPECTS AFTER THE WAR - In March of this year the Bureau of Foreign and domestic Commerce issued a study "Markets After the War" in which an attempt was made to measure the postwar capacity for production in the United States. Subsequently, a series of articles, prepared by the Bureau's several industrial analysts and based on the findings in this study, were published in Domestic Commerce, for the purpose of aiding the businessman to form a background on which to build his own postwar plans. It is emphasized here that these articles are not conclusive answers to any of the questions and problems that will arise in the postwar era, but merely serve as a guide for postwar thinking and planning. Because of widespread interest and desire on the part of businessmen for a compact presentation of this material it seemed advisable to prepare a pamphlet containing these articles. Copies are available at no charge from the Department of Commerce, 520 S. W. Morrison Street, Portland 4, Oregon.

OREGON BUSINESS - NOVEMBER

General Business. Bank debits reported by 88 banks and branches totaled $623,215,251 for the month of November. This was 1.6 per cent less than the October amount, but 24.7 per cent greater than the total reported by the same institutions a year earlier. This reflects the fact that war construction has passed its peak. It will be observed from the following table that the trend in various sections of the state differed substantially.

	Compared with October 1943	Compared with November 1942
Oregon	− 1.6	+24.7
Portland	− 0.02	+27.0
Lower Willamette Valley	−13.8	+ 9.5
Upper Willamette Valley	− 6.7	+23.4
North Oregon Coast	−12.4	+ 9.4
Douglas - Coos Bay	+ 9.4	+40.7
Southern Oregon	− 1.7	+27.6
Upper Columbia River	−10.1	+13.5
Pendleton	+ 2.1	+35.9
Central Oregon	− 5.6	+25.9
Klamath Falls - Lakeview	− 3.0	+ 6.7
Baker - La Grande	+10.2	+27.6
Burns - Ontario	+14.7	+28.6

Retail Sales. The November sales of 498 Oregon independent retailers were 1.9 per cent less than in October, but 9.3 per cent greater than a year earlier. These figures represent dollar volume. There is a tendency for sales to consist of higher priced merchandise so that the physical volume of sales is probably lower than these figures indicate. Comparisons by type of store of November sales with those of October and November 1942 follow:

	Compared with October 1943	Compared with November 1942
Oregon	− 1.9	+ 9.3
Department Stores	+ 2.9	+21.5
Food Stores	− 5.7	+ 6.7
Eating and Drinking Places	− 1.4	+24.4
Drug Stores	+ 2.3	+26.3
Apparel Stores	− 5.4	+22.9
Motor Vehicle Dealers	+ 3.1	+13.2
Furniture - Household - Radio Group	− 7.9	−20.2
Lumber - Building - Hardware Group	− 5.4	−22.0

The percentage change by marketing areas is shown in the table below.

	Compared with October 1943	Compared with November 1942
Oregon	— 1.9	+ 9.3
Portland	— 0.1	+11.9
Lower Willamette Valley	— 2.7	—19.1
Upper Willamette Valley	— 1.4	+16.1
North Oregon Coast	— 5.9	+36.8
Douglas - Coos Bay	— 7.1	+23.4
Southern Oregon	+ 8.1	+26.7
Upper Columbia River and Pendleton	—11.8	+ 7.4
Central Oregon - Klamath Falls - Lakeview	—10.3	+30.6
Baker - La Grande and Burns - Ontario	— 3.3	+ 9.6

Building Permits. Building permits in 44 Oregon cities and towns amounted to $1,166,472. This was a decline of 29.5 per cent from the previous month and was in part seasonal. The November 1943 figure is 68.8 per cent greater than that for November 1942. $994,135 of the $1,166,472 of permits were issued by the city of Portland. In that metropolis permits for 93 new residences providing homes for 171 families were taken out. The total amount involved was $744,500. Most of the balance was for new commercial construction. Additions, alterations, and repairs ($202,897 for the 44 communities) were 21.1 per cent less than last month but 122.2 per cent more than the same month last year.

Lumber Production. Douglas fir production in western Oregon and Washington was 2.2 per cent greater in November than in October and 5.9 per cent greater than in November 1942. The production of pine east of the Cascades in the two states combined was 3.9 per cent less than the previous month, and 2.9 per cent less than in the same month a year ago.

The West Coast Lumbermen's Association reported in part as follows on the situation in that industry: "Although a 'holiday month,' November saw the West Coast lumber industry exceed by 6.8 per cent its 1939-1942 production average. This brought production for 47 weeks of 1943 up to a point only 10.3 per cent below the first 47 weeks of 1942. The industry made a strong recovery during the summer and fall from the most severe winter in recent years, during which production had dropped to 74 per cent of the comparable 1942 period. The driest September and the wettest October on record hampered fall log production, while war requirements for lumber were rapidly rising. The industry's record has been made through months in which manpower in the woods was short by more than 25 per cent. The November drive to meet war needs was in the best tradition of West Coast sawmills and logging operations, and it continues."

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